

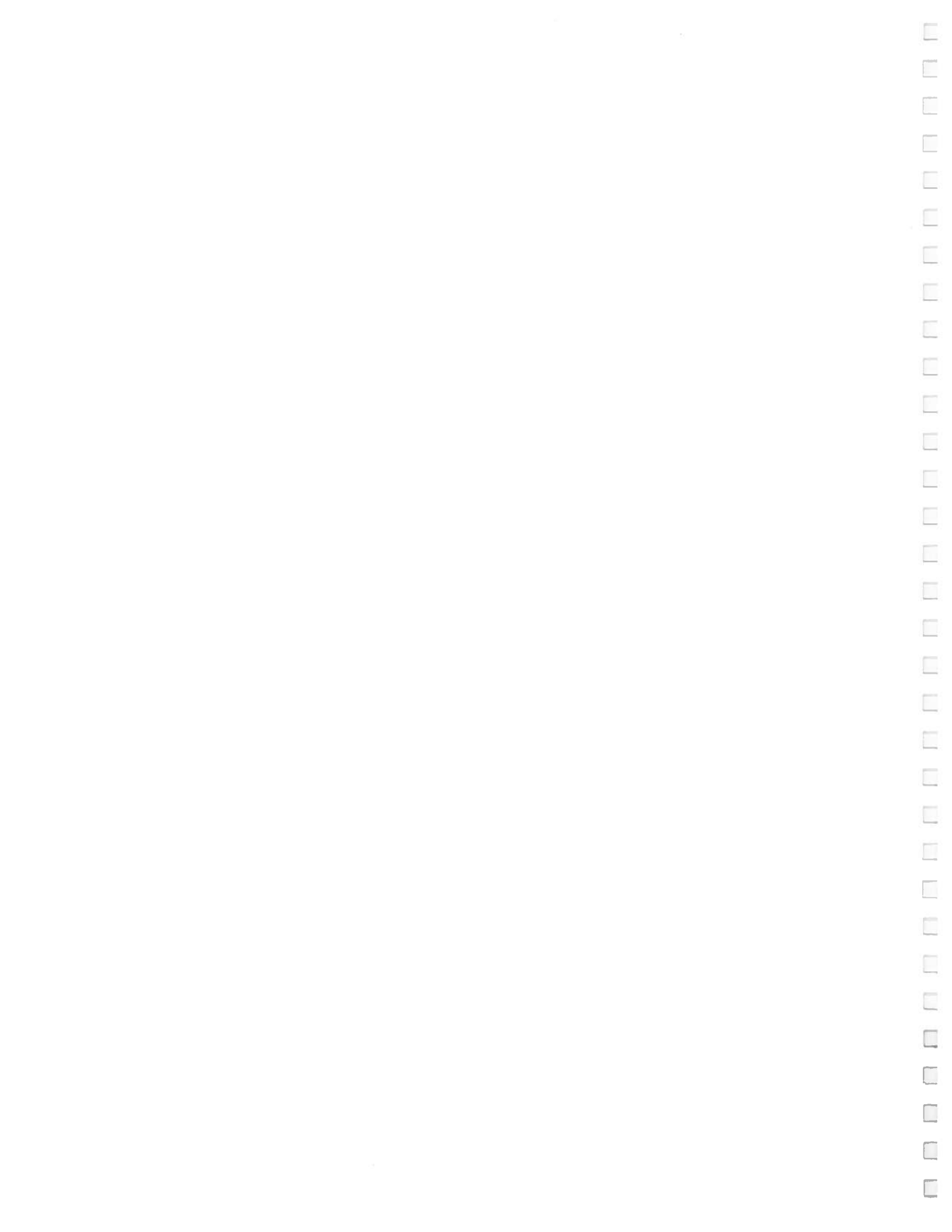
Animal Welfare Institute

Financial Statements (Together with Independent Auditors' Report)

Years Ended June 30, 2014 and 2013

MARKS PANETH

ACCOUNTANTS & ADVISORS



ANIMAL WELFARE INSTITUTE

Financial Statements and Independent Auditors' Report

for the Years Ended June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Animal Welfare Institute
Washington, DC

We have audited the accompanying financial statements of Animal Welfare Institute which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Animal Welfare Institute as of June 30, 2014 and 2013 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marks Paneth LLP

October 27, 2014
Tarrytown, NY



ANIMAL WELFARE INSTITUTE

BALANCE SHEETS

	June 30,	
	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents (including \$563,360 and \$1,097,632 in money market funds in 2014 and 2013, respectively) (Notes 1 and 6)	\$ 1,007,230	\$ 1,420,393
Contributions and accounts receivable (Note 1)	50,243	1,186,963
Investment in securities (Note 1)	5,187,460	6,831,445
Prepaid insurance	14,631	
TOTAL CURRENT ASSETS	<u>6,259,564</u>	<u>9,438,801</u>
FIXED ASSETS (Notes 1 and 2)	<u>5,647,627</u>	<u>5,747,590</u>
TOTAL ASSETS	<u>\$ 11,907,191</u>	<u>\$ 15,186,391</u>
 <u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	<u>\$ 52,086</u>	<u>\$ 23,230</u>
TENANT SECURITY PAYABLE	<u>10,090</u>	<u>11,390</u>
NET ASSETS:		
Unrestricted (Note 1)	11,390,260	\$ 14,702,715
Temporarily restricted (Notes 1 and 3)	354,755	349,056
Permanently restricted (Notes 1 and 4)	<u>100,000</u>	<u>100,000</u>
TOTAL NET ASSETS	<u>11,845,015</u>	<u>15,151,771</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,907,191</u>	<u>\$ 15,186,391</u>

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE INSTITUTE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended June 30,	
	2014	2013
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES:		
Contributions - Foundations and trusts	\$ 703,496	\$ 495,915
- Legacies and bequests (Note 1)	301,248	1,901,043
- Memberships and other (Note 1)	1,217,662	1,629,975
Tenants net rental income (Note 8)	66,896	44,948
Sale of publications and reports	3,336	815
Dividend income	169,988	170,388
Interest income	18,642	35,044
Realized and unrealized gain on securities	1,177,061	738,525
	<u>3,658,329</u>	<u>5,016,653</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfaction of program restrictions:		
Roger L Stevens Publication Fund	88,542	11,025
Animal Welfare Approved program	1,780,000	1,352,220
Public education and programs	219,900	70,051
	<u>5,746,771</u>	<u>6,449,949</u>
Total unrestricted revenues and other support		
EXPENSES: (Note 1)		
Program service	8,752,371	4,564,834
Management and general	246,444	215,402
Fundraising	60,410	52,672
	<u>9,059,226</u>	<u>4,832,908</u>
Total expenses		
Decrease (Increase) in unrestricted net assets	<u>(3,312,455)</u>	<u>1,617,041</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Grants and contributions	2,094,141	1,429,630
Net assets released from restrictions	<u>(2,088,442)</u>	<u>(1,433,296)</u>
Increase (decrease) in temporarily restricted net assets	<u>5,699</u>	<u>(3,666)</u>
DECREASE (INCREASE) IN NET ASSETS	<u>(3,306,756)</u>	<u>1,613,375</u>
NET ASSETS - beginning of year	<u>15,151,771</u>	<u>13,538,396</u>
NET ASSETS - end of year	<u>\$ 11,845,015</u>	<u>\$ 15,151,771</u>

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE INSTITUTE

STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease (Increase) in net assets	\$ (3,306,756)	\$ 1,613,375
Adjustments to reconcile decrease in net assets to net cash (used in) provided by		
Noncash charge for depreciation	99,963	99,963
Realized and unrealized (gain) loss on securities	(1,177,061)	(738,525)
Noncash contributions received	(48,485)	(14,979)
Changes in assets and liabilities:		
Decrease (Increase) in accounts receivable	1,136,720	(1,144,906)
Increase in prepaid expense	(14,632)	
Increase (decrease) in accounts payable and accrued expenses	28,857	(49,844)
Increase (decrease) in tenant security deposit	(1,300)	3,390
NET CASH USED IN OPERATING ACTIVITIES	<u>(3,282,694)</u>	<u>(231,526)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of building improvements	-	(6,828)
Proceeds from sale of securities	3,900,332	2,049,740
Purchase of securities	(1,030,801)	(1,749,063)
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,869,531	293,849
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(413,163)	62,323
CASH AND CASH EQUIVALENTS - beginning of year	<u>1,420,393</u>	<u>1,358,070</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 1,007,230</u>	<u>\$ 1,420,393</u>

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries	\$ 1,833,289	82,418	18,835	\$ 1,934,542
Payroll taxes and employment insurance	138,940	7,465	1,493	147,898
Employee benefits	170,489	12,603	2,461	185,553
Retirement plan	31,565	1,679	336	33,580
Advertising	16,132	150	7,349	23,631
Animal Welfare Institute Quarterlies	99,474	-	1,005	100,479
Printing and publications (except for Quarterlies)	273,461	-	4,788	278,249
Research, writing and editing	30,920	-	-	30,920
Grants	297,255	-	-	297,255
Conferences, meetings and travel	687,897	6,948	-	694,845
Postage, mailing and addressing costs (except for Quarterlies)	86,980	878	-	87,858
Telephone, duplicating and office supplies	120,994	20,696	17,512	159,202
Professional services	4,077,871	12,305	-	4,090,176
Membership and subscriptions	29,482	5,353	2,849	37,684
Acquisition of books and other educational materials	400	-	-	400
Consultants	590,909	-	-	590,909
Internet services	121,491	-	-	121,491
Schweitzer Award	565	-	-	565
Occupancy costs	87,481	36,242	1,250	124,973
Miscellaneous	(1,834)	54,644	-	52,810
Total expenses before depreciation	<u>8,693,761</u>	<u>241,381</u>	<u>57,878</u>	<u>8,993,020</u>
Depreciation	<u>58,610</u>	<u>5,063</u>	<u>2,532</u>	<u>66,205</u>
Total expenses	<u>\$ 8,752,371</u>	<u>\$ 246,444</u>	<u>\$ 60,410</u>	<u>\$ 9,059,226</u>

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries	\$ 1,584,565	\$ 72,589	\$ 16,739	\$ 1,673,893
Payroll taxes and employment insurance	125,890	6,681	1,207	133,778
Employee benefits	161,886	10,202	1,685	173,773
Retirement plan	30,218	1,595	321	32,134
Advertising	21,019	180	8,123	29,322
Animal Welfare Institute Quarterlies	91,753	-	1,563	93,316
Printing and publications (except for Quarterlies)	158,695	69	4,527	163,291
Research, writing and editing	24,819	-	-	24,819
Grants	249,250	-	-	249,250
Conferences, meetings and travel	648,376	2,913	(308)	650,981
Postage, mailing and addressing costs (except for Quarterlies)	82,985	-	592	83,577
Telephone, duplicating and office supplies	142,638	10,360	12,450	339,163
Professional services	321,402	17,761	-	339,163
Membership and subscriptions	23,509	3,648	2,785	29,942
Acquisition of books and other educational materials	419	-	-	419
Consultants	720,763	-	-	720,763
Internet services	44,263	-	-	44,263
Schweitzer Award	467	-	-	467
Occupancy costs	76,864	33,370	354	110,588
Miscellaneous	(3,557)	50,971	102	27,152
Total expenses before depreciation	4,506,224	210,339	50,140	4,766,703
Depreciation	58,610	5,063	2,532	66,205
Total expenses	<u>\$ 4,564,834</u>	<u>\$ 215,402</u>	<u>\$ 52,672</u>	<u>\$ 4,832,908</u>

The accompanying notes are an integral part of these financial statements.

ANIMAL WELFARE INSTITUTE

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Animal Welfare Institute ("AWI") is a nonprofit organization incorporated in 1951 under the laws of Delaware. The general objective of AWI is to reduce animal suffering caused by people.

AWI is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as a Section 501(c)(3) organization. AWI has also been designated as a publicly supported organization by the Internal Revenue Service. Consequently, AWI qualifies for the maximum charitable contribution deduction by donors.

AWI has no uncertain tax positions as of June 30, 2014 in accordance with Accounting Standards Codification ("ASC") Topic 740 ("Income Taxes"), which provides standards for establishing and classifying any tax provisions for uncertain tax positions. AWI is no longer subject to federal or state and local income tax examinations by tax authorities for years before 2011.

Basis of Presentation

In accordance with FASB Accounting Standards Codification ("FASB ASC") 958-310, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions.

In accordance with FASB ASC 958-210, AWI is required to report information regarding its financial position and activities according to three classes of net assets.

Net Assets

The Organization maintains its net assets under the following three classes:

- Unrestricted - represents resources available for support of the Organization's operations over which the Board of Directors has discretionary control.
- Temporarily Restricted - represents contributions and other inflows of assets that are subject to donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. Which such stipulations end or are fulfilled, such temporarily restricted net assets are reported in the statements of activities as net assets released from restrictions.

ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (continued)

- Permanently Restricted - represents those resources subject to donor imposed stipulations that they be maintained intact in perpetuity. The donor permits the use of all the income on related investments and the net capital appreciation thereon, for restricted purpose.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, AWI considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis over the estimated useful lives of the related assets. Fixed assets are capitalized by the Organization for all items \$1,000 or more and its useful life is greater than one year.

Investment in Securities

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value on the balance sheets. Investment income or loss (gains and losses on investments, interest, and dividends) is reflected on the statement of activities and changes in net assets as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

Fair Value Measurements Using:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	
	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Stocks	\$3,744,873	\$4,922,468
Mutual Funds	1,008,011	1,308,969
U.S. Treasury Notes and Bills	335,732	490,104
Corporate Bonds	<u>98,844</u>	<u>109,904</u>
	<u>\$5,187,460</u>	<u>\$6,831,445</u>

FASB ASC 820-10, established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1: Valuations based on quoted prices (unadjusted) in an active market area that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations base on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

Equity Securities

Equity securities are valued at the closing price reported on the active market on which the individual securities are traded.

ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

Mutual Funds

Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Organization

U.S. Government Securities

U.S. government securities are valued using pricing models maximizing the use of observable inputs for similar securities.

Corporate Bonds

Corporate bonds are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Expense Allocations

Certain expenses are allocated to program or support services based upon estimates determined by management.

Contributions

AWI reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the assets. When a donor restriction expires by the passage of time or its restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions receivable represent the amount committed by donors that have not been received by AWI. Contributions of services shall be recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

2. FIXED ASSETS

	<u>2014</u>	<u>2013</u>
Fixed assets consists of the following:		
Land, building and improvements	\$6,308,137	\$6,308,137
Less: Accumulated depreciation	<u>(660,510)</u>	<u>(560,547)</u>
	<u>\$5,647,627</u>	<u>\$5,747,590</u>

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Roger L. Stevens Publications Fund	\$ 249,655	\$ 338,197
Public educational projects	-	10,859
Anti-poaching	100,000	-
Latin american and international whaling	5,100	-
	<u>\$ 354,755</u>	<u>\$ 349,056</u>

4. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets of \$100,000 in 2014 and 2013 are restricted to investments in perpetuity, the income from which is expendable to support the operations of AWI.

Delaware enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to endowment funds existing on or established after that date. Based on its interpretation of the provisions of UPMIFA, AWI is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor restricted endowment funds. As a result of this interpretation, AWI classifies as permanently restricted net assets the original value of gifts donated to be held in perpetuity. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified

ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

4. PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

as temporarily restricted net assets until those amounts are appropriated for expenditure by AWI in a manner consistent with the standard of prudence prescribed by UPMIFA.

5. 401(k) PLAN

AWI has a 401(k) Plan that covers substantially all employees. Contributions are made to the plan at the discretion of management. The Organization contributed \$33,580 and \$32,134 to the plan for the year ended June 30, 2014 and 2013, respectively.

6. CONCENTRATIONS

Concentrations of Credit Market Risk

Financial instruments that potentially expose AWI concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions. AWI's investments are in U.S. Treasury Notes and diversified stocks. Management believes that credit risk related to these are minimal.

Contributions

AWI received approximately 87% of its total contributions from six contributors in 2014 and 59% of its total contributions from eight contributors in 2013.

7. CIVIL MATTERS

AWI, along with four other non-profit groups, was a party to two civil litigation matters that were settled in 2014. AWI's Management does not expect a significant material effect on the financial position or cash flow of AWI as a result of the resolution of these matters.

ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

8. TENANT NET RENTAL INCOME

Tenant net rental income consists of:

	2014	2013
Rental income	\$ 100,654	\$ 78,706
Depreciation	<u>(33,758)</u>	<u>(33,758)</u>
Net rental income	<u>\$ 66,896</u>	<u>\$ 44,948</u>

9. SUBSEQUENT EVENTS

In preparing the accompanying financial statements, AWI has reviewed events that have occurred after June 30, 2014, through the date the financial statements were available to be issued, October 27, 2014. During this period, AWI did not have any material subsequent events that are required to be disclosed in the financial statements.